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SUBJECT: PIEBALGS UPBEAT ON EU ENERGY SECURITY

Classified By: T. Smitham for reasons 1.5 (B/D).

¶1. (U) Summary. EU Energy Commissioner Andris Piebalgs was surprisingly optimistic about Nabucco and European gas supply diversification in general during a February 22 meeting with Deputy Assistant Secretary for European and Eurasian Affairs Matthew Bryza and Special Envoy Gray. Piebalgs pointed to a number of promising developments including:

- Nabucco countries' continuing commitment to the project despite interest in South Stream;
- Turkmenistan's growing interest in moving gas westward;
- Growing signs of gas for Nabucco becoming available in western Iraq's Akkas field;
- German RWE's joining of Nabucco;
- Growing signs of Azerbaijan's ability to increase gas production, including Norwegian Statoil's apparent commitment to export Shah Deniz Stage-II gas through Greece to Albania and Italy;
- EU Nabucco Coordinator Van Aartsen's visit to Ankara, which produced some signs of Turkey's willingness to reach agreement with Azerbaijan on gas transit.

End Summary.

¶2. (U) On February 22 Deputy Assistant Secretary for European and Eurasian Affairs Matthew Bryza, Special Envoy Gray, and Econ Officers met with EU Commissioner for Energy Andris Piebalgs to discuss energy security issues. Piebalgs was surprisingly upbeat about the outlook for gas supply diversification in Europe. He stressed that this issue is important because the Commission expects EU gas production to be declining at the same time EU gas needs are growing, owing to the switch to natural gas for new power plants mandated by the EU's climate change goals.

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Supply Diversification Moving Better Than Expected  
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¶3. (C) Piebalgs began the meeting by highlighting positive

developments on multiple fronts:

-- Norwegian Statoil Hydro has decided to join the Trans-Adriatic pipeline. This is important because Statoil has gas in the Shah Deniz field in Azerbaijan. This is an apparent commitment to export Shah Deniz Stage-II gas through Greece to Albania and Italy. Piebalgs characterized the deal as "very significant" because it will use Turkish infrastructure to bring gas to Europe.

-- Piebalgs is quite pleased with the results of his discussions with Iraq on the possibilities for moving gas from western Iraq's Akkas field to Europe. He is also encouraged by the estimates he has seen of gas supplies that could come from Northern Iraq.

-- Meetings with Egypt have gone well and Piebalgs is encouraged that Egyptian gas could flow up the southern corridor to Europe.

-- The Russian Nord Stream project is now in the environmental impact stage. Piebalgs indicated Nord Stream, as an offshore pipeline, would likely be granted an exception to third party access requirements.

-- Piebalgs was positive on Algerian developments, discounting worries that Algerians are "playing games" with the Russians. He said the Algerian and Russian philosophies are too different, the Russians have been in Algeria for a long time, and there is a lot of built in mistrust.

-- Piebalgs also expects new supplies may be possible from Libya.

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Nabucco  
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14. (C) On the Nabucco project, Piebalgs finds the recent addition of German RWE as a sixth consortium partner to be very encouraging. French Gaz de France wanted to join but Turkish side opposed them because of France's stance on Cyprus. Gaz de France is upset by this, but still interested in the project. According to Piebalgs, RWE joined Nabucco because they realize they need new gas supplies. The Nabucco project also recently received a third party access waiver for the Austrian portion of the pipeline, which Piebalgs said shows the EU is moving in the right direction on the regulatory side.

15. (C) EU Nabucco Coordinator Jozias Van Aartsen has been working with Turkish officials to resolve the Azerbaijan-Turkey transit issue. Van Aartsen believes Turkey has accepted the idea of transit in principle and won't move to the buy & sell model. Piebalgs is confident Van Aartsen will make progress on a workable transit agreement.

16. (C) Piebalgs indicated he met on February 15 with Turkmenistan Deputy Prime minister Tachberdy Tagiev. Piebalgs said Turkmenistan appears to be opening to the idea of moving Turkmenistan gas west. This would involve tying in Turkmenistan's Block 1 in the offshore to the Azerbaijan system, which is only 60 km away. Overall, Piebalgs believes the EU has a decent chance of establishing gas supplies from Turkmenistan.

17. (C) Piebalgs raised the possibility of going to Uzbekistan for gas. He said Uzbekistan is also interested in breaking free from Gazprom. Piebalgs believes the EU should work harder on relations with Uzbekistan. He suggested using EU aid programs in the region as a way of demonstrating that the West is not just interested in taking their resources, but also in regional development.

18. (SBU) On Kazakhstan, Piebalgs said the EU was having less

success on the gas front. This does not overly worry Piebalgs, however, because for him the important country for gas is Turkmenistan, not Kazakhstan.

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South Stream and Whitestream Doubtful  
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¶9. (C) On the Russian South Stream project, Piebalgs stated that the EU is not working on the project and they are not negotiating with Russia about it. He is not aware if the Russians have pressed the Bulgarians, or others, to support South Stream, but would not be surprised by this. He admitted that South Stream would not provide new gas, but believes that route diversification is still good.

¶10. (C) DAS Bryza walked Piebalgs through our concerns about Moscow's success in dividing and conquering through South Stream. DAS Bryza stressed the importance of sequencing, given that the project that moves first in the market will enjoy a strong advantage, even if Nabucco can deliver Caspian gas to Europe for 40 percent to 50 percent more cheaply than can Russian pipelines. Piebalgs took the point, and lamented that Gazprom was playing by the Commission's commercial and competition rules. Aligning the EU's energy policy with its strategic interests and the realities of Nabucco's commercial advantages would require more progress on Europe's common security and foreign policy. In other words, we need to work more with key EU member states.

¶11. (C) Piebalgs considers the Whitestream pipeline project to be a "non-flyer" that the EU can't support because of implications for the EU-Turkey relationship. The EU wants to work to establish Turkey as reliable transit route. South Stream also bypasses Turkey, but this is a Russian, not EU, deal. Piebalgs views South Stream as good leverage to encourage Turkey to make the right decisions. Endorsing Whitestream, however, would send the wrong message, saying

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the EU wants to bypass Turkey. DAS Bryza countered that the support of EU member states for South Stream also signals Turkey it is being bypassed by the EU.

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The Bad News  
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¶12. (C) Piebalgs indicated that most of the bad news is on the LNG front. The Chinese are extremely active in buying up LNG supplies. Also, The EU had planned to hold an LNG conference in late May with Qatar, which is now the fourth biggest gas supplier to the EU. Now, however, Qatar has asked the EU to cancel the conference and keep things at a low-profile bilateral level. It is not clear to Piebalgs where the problem lies. The conference was supposed to be about LNG technology, not about Qatar supplies, and would have mostly focused on the EU building more terminals.

¶13. (SBU) Other discouraging news is that the Norwegians made the decision several months ago to cancel gas development at the Troll field in favor of oil development and have canceled the pipeline project. There concern is that if they developed the gas now, they could lose oil, but Piebalgs doesn't believe this is really justified. Nonetheless, the Norwegians are still talking about gas supplies of 30 bcm/year from other fields by 2030.

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Relations with Russia  
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¶14. (C) Speaking about relations with Russia, Piebalgs related a memorable press interview with Russian President Vladimir Putin in which Putin was asked to respond to the assertion by the US that Gazprom was moving "too far into European flesh". Putin's response was "What's wrong with it? Is good flesh!" To Piebalgs this reinforces that Russian/Gazprom moves are not just political, they also make

commercial sense for Russia -- Russia is looking for outlets for its gas, though in a way that aims to bolster Gazprom's monopoly power, which is not in Europe's interest.

¶15. (C) Piebalgs shared Bryza's concerns that Russia/Gazprom are successfully dividing and conquering individual EU member states. Piebalgs observed Gazprom is doing so in accordance with the EU's existing regulations. Countering Gazprom's aggressive acquisition of strategic energy assets in Europe will require an external energy policy as part of a stronger EU foreign and security policy. Piebalgs believes they need the Lisbon Treaty ratified for this.

¶16. (C) DAS Bryza highlighted US concerns about Russian investment in European infrastructure especially in the case of the Austrian Baumgarten hub, where Gazprom purchased a 49 percent share. Piebalgs agreed that he finds the Russian investment in Baumgarten worrying. He has no proof, but suspects the Russians may be hiding some of their assets and could have more control than is visible. He said the EU is looking into it from a competition standpoint.

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Third Option Possible for Third Energy Package  
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¶17. (C) On the 3rd Energy Package Piebalgs believes the "Third Option" recently presented by the Franco-German coalition could be worked upon, but the Commission's preferred solution is full Ownership Unbundling. Rather than stripping ownership or control of the transmission system from firms as proposed by the Commission, France and Germany suggest that companies be transformed into joint stock companies, whereby a separate management and board is established for the transmission system, with clear limits to the influence of the parent company. This option provides for extremely strong regulatory powers, but would require a lot of bureaucracy and Piebalgs expects it will be very costly to implement. Nonetheless, Piebalgs feels the Third Option might be acceptable if it sufficiently strengthened.

¶18. (SBU) Piebalgs is becoming more and more optimistic that

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they will get the package through. There is a lot of support for the Commission plan in Parliament, but in the Council there are a number of countries that have concerns. He said they could have a Council decision on the 6th of June and then they will see if they need a second reading. He predicted Parliament will come at it from the Commissions' proposal. Piebalgs believes that at the end of process networks will be separated, but not all countries will have ownership unbundling.

¶19. (U) In closing, Piebalgs said he very much appreciated the US's active support for the Southern Corridor to help Europe achieve its own goal of diversified sources of natural gas supply, and encouraged the US to continue along the same path. Piebalgs asked for US help to wrap up the Turkey-Azerbaijan gas transit agreement.

¶20. (C) Comment. Piebalgs's positive views on Nabucco are encouraging, but his unwillingness to openly oppose the South Stream project sends a mixed message to potential transit countries and gas suppliers. Piebalgs views South Stream as leverage to encourage Turkey to agree to reasonable transit terms. In so doing he risks giving the first mover advantage to South Stream. End Comment.

¶21. DAS Matthew Bryza cleared this cable.

Murray

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